Swiss Water Decaffeinated Coffee Income Fund

Annual Report

2003

SWISS WATER®
PROCESS

100% Chemical Free
Coffee Decaffeination

Fund Profile

The Swiss Water Decaffeinated Coffee Income Fund is a limited purpose, open-ended trust created to acquire and hold the securities of Swiss Water Decaffeinated Coffee Company Inc. ("SWDCC").

Company Overview

Headquartered in Burnaby, British Columbia, SWDCC is the world's leading consumer branded chemical-free coffee decaffeinator, and the only decaffeination process that has been certified organic by both the OCIA and Aurora Certified Organic. As the sole branded decaffeination method, the SWISS WATER® Process enjoys substantial recognition in the specialty coffee trade and with consumers. Our business strategy has four key elements:

- build consumer demand for the 100% chemical-free SWISS WATER® Process brand
- dominate the organic decaffeinated coffee market
- build sales in the higher margin independent coffee house segment
- increase SWISS WATER® Process capacity and enter the mainstream chemical-free decaffeinated segment

With the ongoing expansion of the specialty coffee market, favourably shifting demographics, growing demand for organically certified foods, rising concern around food provenance, and a product that imparts valuable benefits to both coffee retailers and consumers, SWDCC is well positioned for future growth.

Facilities

We operate the world's only SWISS WATER® Process plant from the Vancouver suburb of Burnaby, British Columbia, Canada.

Products

SWDCC decaffeinates customer-owned coffees, including organically certified coffees, for a toll fee. We also purchase high-quality green coffees from more than 10 different countries, decaffeinate them and then market them to the green coffee trade.

Customers

SWISS WATER® Process green decaffeinated coffee is sold to many of North America's leading specialty roaster retailers, specialty coffee brokers and high-quality commercial coffee roasters. We also serve markets in the United Kingdom, Japan and Australia.

SWDCC has established long-term customer relationships with many well-known companies, including Second Cup, Kraft Foods, Starbucks, Tim Hortons, Diedrich Coffee, Nabob Coffee Co. and President's Choice.

Approximately 59 per cent of our revenue comes from the United States, 28 per cent from Canada, and the balance from international markets.

Financial Highlights

For the year ended December 31, 2003 ($ thousands except per unit amounts)		
Operations		
Sales	$	24,305
Operating Income (EBITDA)		8,444
Net income		6,312
Distributable Cash and Distributions		
Distributable cash generated	$	7,911
Distributable cash generated per unit		1.45
Distributions declared		7,103
Distributions declared per unit		1.30

- Recorded 11% year-over-year volume growth
- Recorded international volume growth of 54%
- Increased volume to Pacific Northwest region by 37%
- Initiated design phase of expansion project at Burnaby, British Columbia SWISS WATER® Process facility
- Distributed $1.30 per unit, meeting annual cash distribution target

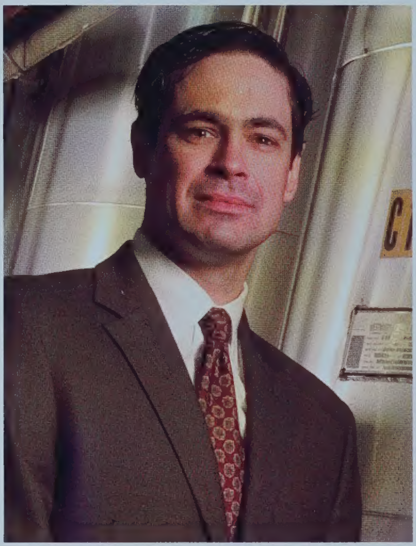
Revenue by Geographic Region

	2003	2002
USA	59%	61%
Canada	28%	30%
International	13%	9%

Revenue by Customer Segment

	2003	2002
Coffee Brokers	57%	51%
Commercial Roasters	28%	40%
Roaster Retailers	15%	9%

We are pleased to present the second annual report of the Swiss Water Decaffeinated Coffee Income Fund. In it, you'll find an overview of our financial results and operational achievements for the year ended December 31, 2003; a discussion about how we're building demand for SWISS WATER® Process decaffeinated coffees across a wide range of markets; and a few words about our strategy to meet accelerating demand over the long-term.


Frank A. Dennis, Trustee, President and CEO

As 2003 represents our first full year of operations since inception of the Fund on July 24, 2002, no annual comparative information is available. However, we believe that the change in ownership and the formation of the Fund did not materially alter the underlying business. Therefore, we have provided comparative information where appropriate.

Demand for our products is accelerating. In fact, during 2003 we decaffeinated 11% more coffee, by weight, than we did the previous year. Importantly, that volume growth came from virtually every area of our business. Our international sales were up by 54% on a year-over-year basis. Sales in the Pacific Northwest region of the US – a key development market – rose by 37%. And in Canada, new accounts and growing demand from established 'marquee' customers, such as Tim Hortons and Second Cup, led to an annual volume increase of 7%.

In total, in 2003 we recorded sales of $24.3 million, EBITDA of $8.4 million, and net income of $6.3 million. This is the fourth consecutive year the Swiss Water Decaffeinated Coffee Company Inc. (SWDCC) has recorded double-digit sales growth.

Growing our international sales

Demand for SWISS WATER® Process decaffeinated coffees is driven by three key trends – the continued expansion of the specialty coffee market, growing consumer demand for healthier food choices, and an aging population base. As these trends are occurring worldwide, we've been working to expand our market penetration beyond Canada and the US – with some promising results.

During 2002, customers outside North America accounted for $2.0 million, or 9%, of our consolidated sales. In 2003, our international sales jumped sharply, contributing $3.2 million, or 13% of our annual sales. This growth was driven by key account wins in Japan, Ireland, Australia and England.

In the UK, we added two local favourites to our client roster. The first, Caffé Nero, started carrying SWISS WATER® Process decaffeinated coffees at their 120 stores in spring 2003. We also began supplying Tesco, the UK's largest grocery chain, with decaffeinated coffee for their premium private label. We delivered Tesco's first order in the fourth quarter.

To leverage these wins, we executed a media-friendly public relations campaign to build brand recognition among UK consumers. This helped push our regional sales to new heights. By the end of 2003, product volumes in the UK had grown by 195%.

In Japan, growth came through a newly formed relationship with Morinaga Milk Industry, the country's second largest dairy group. Morinaga, who produces a wide range of dairy products, now uses SWISS WATER® decaffeinated coffee in their Mt. Rainier decaffeinated café latte.

Finally, in Australia, a new alliance with a leading coffee broker drove increased market penetration. Based in Southern Australia – where the vast majority of the country's coffee sales occur – and a long-time participant in the premium specialty coffee market, this agent helped us forge ties with a number of new independent roaster-retailers during 2003. We expect to see continued sales growth from Australia in the coming year.

Growing consumer demand

Closer to home, the ongoing expansion of Tim Hortons, Canada's largest coffee and fresh baked goods chain, continued to bolster our results. As the chain's decaffeinator of choice, our product volumes grow as their coffee sales multiply. During 2003, Tim Hortons opened 155 new Canadian outlets – and continued to build the sales of its popular coffees through increased grocery store distribution. Together, these strategies helped boost the company's annual revenues – and our account volumes – by approximately 26%.

We also benefited from a co-branding agreement with Tim Hortons that places our logo in more than 2,300 stores and on grocery shelves across the country. By placing our trademark onto our customers' decaffeinated coffee packaging, both parties win. Our customers differentiate themselves from the competition, and our brand gains valuable consumer exposure.

A new co-branding initiative with Seattle's Best Coffee also helped build our brand equity in 2003. We worked closely with the popular roaster retailer to develop product packaging and promotional materials that clearly convey the unique characteristics of premium coffee that's decaffeinated without using chemicals.

We also continued to increase brand visibility at the source – in the coffee houses where our decaffeinated coffees are sold.

By providing retailers who enroll in our Licensed Vendor Program with high-quality point-of-sale merchandise, such as window clings and ceiling danglers, and with educational materials for front-line staff, we help them attract consumers who already know about our 100% chemical-free decaf coffees – and position them to share our message with

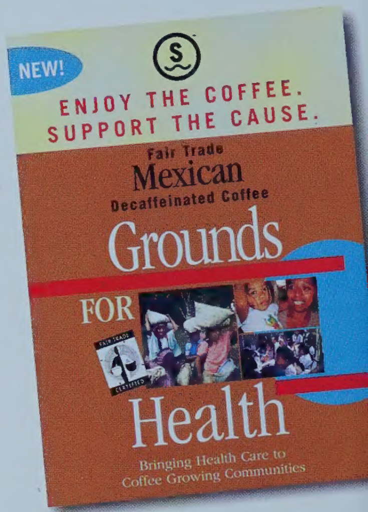
those who don't.

Registered vendors also appear in a web-based directory that guides consumers to the coffee houses and grocery stores that sell SWISS WATER® Process decaffeinated coffee. In 2003, 115 new roaster retailers signed up for the program, pushing the total number of participants to 382.

Growing sales with independent coffee houses

One of our key business strategies is to build mutually beneficial, long-term relationships with independent coffee houses. To do this, we've adopted a personalized marketing style that brings our representatives face-to-face with the people who buy, and sell our decaffeinated coffees. This "high-touch" sales strategy distinguishes us from our European competitors – and provides valuable insight into the unique characteristics of this high-margin market.

Independent coffee houses, for example, often attract coffee drinkers who are more "activist" in their disposition. They base buying decisions on several factors, including where the item was manufactured, how it was processed, and whether its production was environmentally harmful. Within the coffee market, this has given rise to some progressive new products.



Coffee that is Fair Trade certified, for example, ensures that the farmers who grew the coffee were paid a fair price for their harvest. Shade-grown coffees are cultivated under a canopy of diverse shade trees, which provides food and shelter for songbirds, as well as for other plants and animals. The trees also provide natural mulch, which reduces the need for chemical fertilizers.

At SWDCC, we're committed to making a positive difference wherever we can. So, when we began developing our own "causal" decaffeinated coffee in support of Grounds for Health – an international non-profit that provides health care to coffee-growing regions in Mexico – it seemed fitting to begin with Fair Trade and Shade Grown certified coffee.

In October 2003, we launched our Grounds for Health Fair Trade Mexican Decaffeinated Coffee, a product that helps us meet two key objectives. First, with five cents from every pound sold going directly to Grounds for Health, it enables us to give back to the coffee-growing community. Second, it positions us to respond to a growing demand for products consumers can feel good about buying – a proposition that's already translated into measurable sales growth.

Growing our share of the organic market

Another market segment that's caught the attention of many consumers is organically certified foods – foods that have been produced without the use of synthetic pesticides and fertilizers, and on farms that maintain and replenish the fertility of the soil. Valued at approximately $7.7 billion annually, the organic food market is currently growing at approximately 18% per year – faster than any other segment of the food industry.

Part of this sales growth is coming from the coffee segment. Once considered a niche market, organically certified coffee products – both regular and decaffeinated – are now a mainstream component of the coffee business.

At SWDCC, we're uniquely positioned to respond to rising demand for organic decaf, with the only decaffeination facility in the world that's been certified organic by both the Organic Crop Improvement Association and Aurora. Certification by these bodies is recognized around the world, and is the key to accessing global organic markets.

During 2003, our organic volumes grew by 28%, and represented 14.5% of our consolidated volumes. This is up from 12.6% the previous year, and just 4.1% in 1998. Our year-over-year growth was driven primarily by increased business from key organic roasters, such as Green Mountain Coffee Roasters, a leading specialty coffee roaster based in Vermont.

We also expanded the toll decaffeination services we provide President's Choice, to include its recently launched Organic Coffees. One of Canada's most popular product lines, President's Choice sells its food, pet, garden and household products in grocery stores across the country.

To further capitalize on growing demand for organic coffees, and increase our penetration of the independent segment, we recently entered the market directly, with our own organic decaf. Launched in January 2004, our Cascadia Blend™ is a multi-origin coffee that's versatile enough to be used as an espresso or a drip. It represents the first offering in our new line of sustainable "Quadra Seal™" coffees.

Developed in direct response to customer requests, our Quadra Seal™ brand provides consumers with four certifications – Fair Trade, Shade Grown, Organic and Chemical Free Decaffeination – in one coffee. With demand for all four certifications on the rise, we believe our new Cascadia Blend™ will be very well received, and that it will provide a solid platform for future growth.

We've implemented several marketing initiatives to promote our Cascadia Blend™ and Grounds for Health Mexican Decaf, and expect both products to generate strong sales in the coming year.

Growing regional markets

In 2001, we initiated a targeted marketing campaign to build brand recognition in the Pacific Northwest region of the United States. To achieve this goal, we hired a dedicated sales rep to develop customer relationships, ran high visibility print ads in healthy lifestyle magazines, and expanded our website to add more consumer-friendly information. Together, these strategies generated impressive results. By the end of 2002, brand awareness within our target market had risen by 71% and regional sales had grown by 19%.

In 2003, our sales and marketing team worked hard to build on this momentum – staying in touch with established customers, introducing our 100% chemical-free message to new accounts, and extending our targeted print campaign. And once again, our efforts paid off – sales in the Pacific Northwest grew by another 37% in 2003.

We also expanded our focused marketing strategy to include a second geographic region – the San Francisco Bay area of California. We began by increasing the size of our sales force, so we could visit more roaster retailers and independent coffeehouses more often.

Now, we're building on that groundwork, with the rollout of our first geographically targeted television commercial. Aimed at well-educated, upper income women, aged 40 years and older, the ads began running in February 2004 on lifestyle channels such as Home and Garden TV, A&E, and Food & Travel.

The ad employs the tagline "Water has some great uses" to support our SWISS WATER® Process and shows a nosy neighbour being silenced with a sudden blast from the garden hose. It's expected to reach 1.63 million households in the San Francisco Bay and Pacific Northwest regions.

During 2004, we intend to leverage the awareness generated by the campaign to further educate consumers, and trade customers, about our unique, chemical-free decaffeination process.

Growing through challenges

Clearly, it's been another year of strong growth for SWDCC. In 2003, we won new customers, expanded our markets, added to our product list, and recorded our highest annual sales to date. We achieved these positive results despite two challenges – the five-week shutdown of our Burnaby, BC facility, to install a new coffee bean dryer, and the rapid rise in the value of the Canadian dollar.

The dryer installation was the final element of a productivity improvement plan initiated in 2002. Designed to maximize our throughput and improve product quality, this multi-part program increased our production capacity by approximately 20%, and was completed on time, on budget and with minimal disruption to our customers.

To offset the effects of a stronger Canadian dollar, we adopted a new pricing policy in May 2003. Now, all our product prices are set in Canadian dollars and converted at the current exchange rate for customers who are invoiced in US dollars. This approach has helped ease the margin compression we saw in early 2003.

Managing for growth

Looking ahead, we're confident we can maintain our sales momentum in the coming year. Co-branding initiatives and marketing programs will continue to generate interest and increase brand recognition among consumers around the world. Core customers, such as Tim Hortons and Starbucks, are expanding their business. A burgeoning organic food market will drive demand for organically certified decaf coffees. And a healthy new account pipeline, as well as full-year business on recently acquired accounts, will contribute to solid top-line growth.

Accordingly, we're focused on maximizing our plant asset in the short-term – and significantly expanding our production capacity in the long-term.

To maintain our current productivity levels, we made a special investment in preventative maintenance during the final quarter of 2003. Designed to enhance the overall reliability of our plant asset, these minor equipment upgrades will limit our downtime and help increase yields.

Moving forward, we're continuing to investigate investment and acquisition opportunities in the mainstream, chemical-free decaffeination market. This would enable us to expand our market base beyond the "premium" niche and, ultimately, become a leader in the "second-tier" segment as well.

Additionally, we're in the early stages of a major expansion project at our Burnaby, BC facility. On March 23, 2004, we announced the completion of a private placement of 1,220,000 additional units at a price of $14.80 per unit. Gross proceeds of approximately $18 million are expected to cover the project costs. Anticipated to take 18 months to complete, the build-out of our SWISS WATER® Process facility will increase our production capacity by approximately 65% and position us to meet customer demand for the next five to eight years.

Expanding our Burnaby plant, rather than building a new facility elsewhere, enables us to realize economies of scale in receiving and shipping, concentrate our technical and intellectual expertise at one location, and eliminate complete shutdowns. With the first stage of the engineering phase complete, and financing now in place, long lead item purchases are expected to begin by May 2004.

In closing, I'd like to thank all our employees for their hard work this year, and congratulate them on their recent fundraising efforts. Through a combination of personal donations, a Mexican GFH coffee sales drive, and staff barbecues, the group has collectively raised upwards of $8,000 toward Grounds For Health.

I'd also like to welcome Burt Dennis, our new CFO, to the team. Burt, who joined SWDCC on January 12, 2004, brings 14 years of leadership experience and a strong background in Corporate Finance to our operations. He'll help ensure we continue to meet our budgetary and financial targets in the coming years.

Finally, my thanks to our unitholders and Board members for your ongoing support and interest in the Fund. We look forward to meeting our commitments to you in 2004.

On behalf of the Board of Trustees,

Frank A. Dennis,
Trustee
President and CEO
Swiss Water Decaffeinated Coffee Company Inc.

Management's Discussion and Analysis

Overview

Swiss Water Decaffeinated Coffee Income Fund (the "Fund") was launched on July 24, 2002, when we completed an initial public offering (IPO) and acquired 100% of the common shares and $45,000,000 of 13.75% unsecured subordinated notes of Swiss Water Decaffeinated Coffee Company, Inc. ("SWDCC"). Prior to July 24, 2002, SWDCC operated independently as a privately held entity.

Headquartered in Burnaby, British Columbia, SWDCC is the world's leading branded chemical-free coffee decaffeinator. Our operations are carried out in a leased facility which comprises approximately 38,000 square feet of space and houses the SWISS WATER® Process facilities.


Burt Dennis, CFO and Dave Wong, Controller

Cash Distributions

The Fund's policy is to make monthly distributions to unitholders, based on 90% of the annual distributable cash generated by SWDCC. Distributions are paid on a level basis throughout the year, thereby smoothing out the seasonality inherent in the green coffee industry. Historically, our business trends stronger in the second half of the fiscal year than during the first half. In 2003, SWDCC generated distributable cash of $1.45 per unit. In keeping with the Fund's policy, distributable cash available to unitholders was 90% of that amount, or $1.31 per unit. Actual cash distributions of $1.30 per unit were declared.

Operating Results

As the Fund commenced operations on July 24, 2002, the financial information for the fiscal year ended December 31, 2002 represents a partial period, and does not provide a meaningful comparison to the 12 months ended December 31, 2003. However, as we believe the change in ownership of SWDCC did not materially change the underlying business, we have provided comparisons to full year figures for fiscal 2002 where appropriate.

Sales

The majority of our product volume, approximately 65% in 2003, is processed under arrangements whereby we charge a processing fee for the decaffeination of green coffee beans belonging to our customers. We do not take title to these green coffee beans. This volume is categorized as "toll" business and is comprised entirely of processing revenue.

The remainder of our volume is comprised of premium-grade arabica green coffee beans which we purchase from the specialty green coffee trade, decaffeinate, and then sell to our customers. This volume is categorized as "non-toll" business and includes both processing revenue and green coffee cost recovery revenue.

During 2003, we recorded sales of $24.3 million. This represents an increase of $2.2 million, or 10%, from the same period last year, and was achieved despite the strengthening of the Canadian dollar. The growth is attributable to higher product volumes in both our toll and non-toll business which, combined, were up by 11% on a year-over-year basis. Our strong results are due to several factors, including the excellent development of our international business in Japan, the UK and Australia; strong growth in our Pacific Northwest and San Francisco regional markets; and increased sales to 'marquee' customers, such as Tim Hortons and Diedrich Coffee.

The strengthening of the Canadian dollar began to place downward pressure on our margins in early 2003. To mitigate the effects of the rising currency, we implemented a fixed, Canadian dollar-based pricing structure. As a result, our pricing is now in Canadian dollars. For customers who are invoiced in US dollars, we convert our prices at the current exchange rate. In addition, we hedge a portion of our expected U.S. denominated sales. While our new invoicing method partially offset the rapid increase in the value of the Canadian dollar by effectively increasing our prices, it did not result in the complete recovery of our margins.

Sales for the three-month period ended December 31, 2003 were $6.9 million, which is up by $0.5 million from the same period last year. This was primarily due to increased product volumes, particularly within our higher margin specialty business.

Cost of goods sold

Our cost of goods sold is primarily the cost of green coffee purchased for non-toll business, and the plant labour and processing costs directly associated with the production facility.

We source green coffee beans through coffee brokers from coffee-producing countries located mainly in Central and South America, Africa and Asia. The price is based on the New York 'C' (NYC) coffee commodity price, plus a quality differential. Historically, the NYC component makes up more than 80% of the total cost of green coffee, while the quality differential typically accounts for less than 20% of the total cost. Both the NYC and the quality differential fluctuate in response to fundamental commodity factors that affect supply and demand. We have hedging strategies in place to minimize the impact of movement in the NYC component of coffee prices between the time we purchase the green coffee beans and the time we sell the decaffeinated green coffee beans to our customers – approximately

CHEMICAL FREE
DECAFFEINATION

An estimated 46 million Americans drink decaf weekly.

three months. There is no open market to hedge the quality differential component of our green coffee cost. Therefore, in periods of rising differential markets we experience a differential cost recovery gain, and in periods of falling differential markets we experience a loss on differential cost recoveries. We expect that over the course of a full fiscal year, differential cost recovery gains and losses generally balance each other out.

Since we hold net US dollar assets in our balance sheet in the form of US dollar accounts receivable, any foreign exchange gains or losses resulting from sustained Canadian dollar movement are recognized as they are realized, and also included in cost of goods sold.

Gross profit

Within our discussion and analysis of operations, we report gross profit as a dollar amount and as a percentage of revenue. Increases or decreases in coffee market prices will generate corresponding increases or decreases in non-toll revenue and non-toll cost of goods sold. Our hedging strategies help mitigate the effects of coffee market price changes to ensure there is minimal impact on gross profit dollars earned during periods of market volatility.

During 2003, annual coffee imports to the US grew by 4.6% – decaffeinated coffee imports grew by 7.0%.

In periods of significant coffee commodity price (NYC) volatility, increases or decreases in total sales and total cost of goods sold may have a significant impact on our gross profit as a percentage of revenue, even though absolute gross profit dollars are generally unaffected. For this reason, when reviewing gross profit performance in any given reporting period, we focus primarily on the absolute dollar amount of gross profit generated and not on gross profit as a percentage of sales.

Gross profit in 2003 totalled $12.4 million. This represents an increase of $0.5 million over the same period last year, and was primarily driven by growing sales volumes to specialty customers. Gross profit as a percentage of sales in 2003 was 51%, compared to 54% for the same period last year. The decrease in gross profit margin as a percentage of sales is primarily due to the strengthening of the Canadian dollar relative to the US dollar in 2003. It is also attributable to additional precautionary plant maintenance carried out during the fourth quarter. Comprised of minor equipment upgrades, this investment was undertaken to ensure our high production rates can be maintained in 2004.

Gross profit for the three-month period ended December 31, 2003 was $3.3 million, which is unchanged from the same period last year. The year-over-year increase in quarterly sales was offset by the stronger Canadian dollar and the increase in plant maintenance costs.

Selling and administration expenses

Our selling and administration expenses are comprised of consumer promotion advertising, salaries, and other general and administration costs.

Consumer promotion advertising includes costs related to market research regarding the behaviour of decaffeinated coffee consumers, development of media, print and in-store merchandising programs, and the costs associated with the successful execution of these programs.

In 2003, consumer promotion and advertising was $0.6 million, which is down by $0.4 million from the same period last year. This reduction reflects our decision to delay the execution of consumer advertising to the first half of 2004.

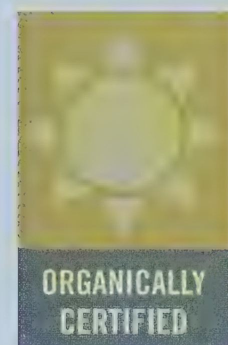
In the three-month period ended December 31, 2003, consumer promotion and advertising was $0.1 million. This represents a decrease of $0.2 million compared to the same period last year, and is primarily due to the deferral of our consumer advertising.

Salaries include all the compensation costs associated with salaried personnel and other personnel-related costs.

In 2003, salaries expense totalled $2.1 million. an increase of $0.7 million from the same period last year. Salaries have increased as additional sales staff have been hired to support the continuing growth of our business.

During the three-month period ended December 31, 2003, salaries expense was $0.6 million. This is up from $0.5 million during the same period last year and is due to our larger sales staff.

Other general and administration includes occupancy costs, professional fees, staff-related travel and miscellaneous overhead charges.



According to Mintel Consumer Intelligence, the number of coffee houses in the US now exceeds 17,000 – an 83% increase from 1998 to 2003.

In 2003, other general and administration costs totalled $1.2 million.

In the three-month period ended December 31, 2003, other general and administration costs were $0.4 million, an increase of $0.1 million over the same period last year. This is primarily due to our increased volumes.

Income before interest, depreciation and amortization, fund administration and trustee fees, and provision for income taxes

In 2003, income before interest, depreciation and amortization, fund administration and trustee fees, and provision for income taxes (or EBITDA, as discussed below) was $8.4 million.

In the three-month period ended December 31, 2003, EBITDA was $2.3 million, which is unchanged from the same period last year.

Depreciation and amortization for 2003 was $1.4 million and primarily reflects the depreciation of Machinery and Equipment, which was restated at fair market value upon the Fund's inception.

Depreciation and amortization for the three months ended December 31, 2003 was $0.4 million, up by $0.1 million from the same period last year. The increase is mainly due to the purchase of a new coffee bean dryer during 2003.

Fund administration costs are comprised of trustee fees and other expenses required to administer the Fund. These expenses include professional fees, transfer agent costs, investor relations costs and other overhead. Fund administration fees for 2003 totalled $0.3 million.

During the three-month period ended December 31, 2003, fund administration and trustee fees were $0.1 million, which is unchanged from the same period last year.

Income before provision for income taxes

Income before provision for income taxes for 2003 was $6.7 million. The Fund recorded income tax expense of $0.4 million for 2003, based on the taxable income of the business.

For the three-month period ended December 31, 2003, income before provision for income taxes was $1.8 million, which represents a decrease of $0.1 million compared to the same period last year.

Net income

Net income for 2003 totalled $6.3 million, or $1.16 per trust unit.

During the three-month period ended December 31, 2003, net income was $1.66 million, or $0.30 per trust unit. Net income was $1.76 million, or $0.32 per trust unit, for the same period last year.

Cash Flow and Liquidity

Acquisition

On July 24, 2002, the Fund completed its IPO, and sold 5.5 million trust units to the public for net proceeds of $49.7 million. Before purchasing SWDCC, the Fund incorporated 615159 B.C. Ltd. (Acquisitionco), a wholly owned subsidiary of the Fund. Concurrent with the issuance of the trust units, the Fund invested the net proceeds in Acquisitionco by way of subscription for the shares and the purchase of the SWDCC notes. Acquisitionco then acquired all of the outstanding shares of a predecessor of SWDCC for an amount equal to the net proceeds of the offering, less the repayment of that company's then outstanding bank debt. Following the acquisition, Acquisitionco and the predecessor amalgamated to form SWDCC.

Cash flow from operations

In 2003, the Fund generated $7.9 million in cash flow from operations, before changes in non-cash working capital. Additionally, the Fund generated $0.3 million of cash flow from net changes in non-cash working capital items.

During the three-month period ended December 31, 2003, the Fund generated $2.0 million in cash flow from operations, before changes in non-cash working capital. Additionally, the Fund generated $0.7 million of cash flow from net changes in non-cash working capital items.

The Fund recorded capital expenditures of $2.2 million for 2003. These expenditures were primarily related to our capacity expansion plans, including the installation of our new coffee bean dryer. To date, we have not drawn upon our $2.0 million capital expenditure line, which remains available to fund future expansion.

In the three-month period ended December 31, 2003, the Fund had capital expenditures of $0.5 million.

In 2003, the Fund declared distributions to unitholders of $7.1 million.

In the three-month period ended December 31, 2003, the Fund declared distributions to unitholders of $1.8 million.

Together, the transactions outlined above resulted in a net cash decrease of $1.1 million for 2003. This resulted in a cash balance of $0.2 million at December 31, 2003.

Our share of the US decaffeinated coffee market grew from 2.78% in 2002 to 2.94% in 2003.

Credit facilities and liquidity

SWDCC has a $3.0 million collateralized line of credit bearing interest at the bank prime lending rate plus 0.75%. As at December 31, 2003, this facility was not being utilized. In addition, we have a $2.0 million non-amortizing term capital expenditure facility due July 23, 2005. This facility was secured to fund expansionary capital expenditures. To date, the capital expenditure facility has not been utilized as expansionary capital requirements have been funded internally.

We expect cash flow from operations, together with cash on hand and utilized credit facilities, to be sufficient to fund our operating requirements, non-expansionary capital expenditures and anticipated Fund distributions as we go forward. As discussed in the Outlook section below, we are planning to significantly increase our plant's production capacity. Accordingly, we are currently reviewing financing options to fund the capital requirements for this expansion.

Outlook

Our SWISS WATER® Process facility is achieving record production numbers. To keep pace with accelerating growth rates, we are preparing to significantly increase the plant's production capacity. Currently, the detailed engineering phase of the expansion project is underway and we are assessing financing options. We will also bolster our plant's preventative maintenance program for 2004. Effective management of the plant asset will be crucial as we move toward new capacity levels. Neither of these projects is expected to negatively impact our ability to achieve our cash distributions targets.

In addition to increasing production capacity at our Burnaby facility, we are continuing to pursue the development of mainstream chemical-free decaffeination capabilities. We believe these initiatives, together with the strong fundamentals driving our business growth, will continue to generate positive results into the foreseeable future.

Non-GAAP Financial Measures

Distributable cash and EBITDA are non-GAAP financial measures. Non-GAAP financial measures do not have any standardized meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies.

Distributable cash represents net income for the period, adjusted to remove non-cash expenses including depreciation, amortization and future income taxes and reduced by maintenance capital expenditures. Distributable cash is further described and reconciled in note 15 of the Financial Statements.

EBITDA is net income before interest, depreciation and amortization, fund administration, trustee fees and provision for income taxes, and the reconciliation to net income is apparent on the consolidated statement of operations. The reporting of EBITDA is intended to assist users in the performance of financial analysis.

FAIR TRADE CERTIFIED

A major economic player, coffee is second only to oil in terms of dollars traded worldwide. The global coffee industry employees 20 million people.

Forward Looking Statements

This report may contain forward-looking statements. Such statements involve known and unknown risks, uncertainties and other factors outside management's control that could cause actual results to differ materially from those expressed in the forward-looking statements. The Fund does not assume responsibility for the accurateness and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances

Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors of the Swiss Water Decaffeinated Coffee Company Inc. and the Trustees of the Fund. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Deloitte & Touche LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

Frank A. Dennis
Trustee

Auditors' Report

To the Unitholders of

Swiss Water Decaffeinated Coffee Income Fund

We have audited the consolidated balance sheets of Swiss Water Decaffeinated Coffee Income Fund (the "Fund") as at December 31, 2003 and 2002 and the consolidated statements of operations, unitholders' equity and cash flows for the year ended December 31, 2003 and the period from July 24, 2002 to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the year ended December 31, 2003 and the period from July 24, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia

February 27, 2004

Consolidated Balance Sheets

(in thousands of dollars)

	December 31 2003	December 31 2002
ASSETS		
Current Assets		
Cash	$ 239	$ 1,340
Accounts receivable	2,642	2,786
Income taxes receivable	11	—
Inventory (note 4)	1,678	2,058
Prepaid expenses	173	213
	4,743	6,397
Property, Plant and Equipment (note 5)	12,324	11,397
Other Assets (note 6)		
Goodwill	28,842	28,842
Proprietary process technology	9,000	9,000
Brand	856	956
	$ 55,765	$ 56,592
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 1,776	$ 1,815
Income taxes payable	—	229
Distributions payable to unitholders (note 16)	592	592
	2,368	2,636
Future Income Taxes (note 8)	4,414	4,182
	6,782	6,818
UNITHOLDERS' EQUITY		
Unitholders' Equity	48,983	49,774
	$ 55,765	$ 56,592

See accompanying notes to these Consolidated Financial Statements

Consolidated Statement of Unitholders' Equity

(in thousands of dollars)

	Year ended December 31 2003	For the period from July 24 to Dec. 31 2002
Balance Beginning of Period	$ 49,774	$ —
Issue of Trust Units (note 10)	—	49,719
Net Income for the Period	6,312	3,186
Distributions Declared (note 15)	(7,103)	(3,131)
Balance End of Period	$ 48,983	$ 49,774

See accompanying notes to these Consolidated Financial Statements

Consolidated Statements of Operations

(in thousands of dollars)

	Year ended December 31 2003	For the period from July 24 to Dec. 31 2002
Sales	$ 24,305	$ 11,084
Cost of Goods Sold	11,934	5,148
Gross Profit	12,371	5,936
Selling and Administration Expenses		
Consumer promotion and advertising	587	479
Salaries	2,147	832
Other general and administration	1,193	455
	3,927	1,766
Income Before Interest, Depreciation and Amortization, Fund Administration and Trustee Fees and Provision for Income Taxes	8,444	4,170
Other Expenses		
Interest	34	4
Depreciation and amortization	1,387	549
Fund administration and trustee fees	337	143
	1,758	696
Income Before Provision for Income Taxes	6,686	3,474
Provision for income taxes (note 8)	374	288
Net Income for the Period	$ 6,312	$ 3,186
Basic and Diluted Net Income per Trust Unit	$ 1.157	$ 0.584
Weighted average number of trust units outstanding	5,455,200	5,455,200

See accompanying notes to these Consolidated Financial Statements

Consolidated Statement of Cash Flows

(in thousands of dollars)

	Year ended December 31 2003	For the period from July 24 to Dec. 31 2002
Cash Flows from (used in) Operating Activities		
Net Income for the period	$ 6,312	$ 3,186
Items not involving cash		
Depreciation and amortization	1,387	549
Future income taxes	230	92
	7,929	3,827
Change in non-cash working capital		
Accounts receivable	144	(900)
Income taxes recoverable	(11)	—
Inventory	380	267
Prepaid expenses	40	(73)
Accounts payable and accrued liabilities	(40)	975
Income taxes payable	(226)	(17)
	8,216	4,079
Cash Flows from (used in) Investing Activities		
Purchase of property, plant and equipment, net	(2,214)	(174)
Acquisition, net of cash acquired (note 13)	—	(40,104)
	(2,214)	(40,278)
Cash Flows from (used in) Financing Activities		
Distributions paid	(7,103)	(2,539)
Issue of trust units (note 10)	—	54,552
Cost of issuance (note 10)	—	(4,833)
Repayment of long-term debt (note 13)	—	(9,641)
	(7,103)	37,539
(Decrease) Increase in Cash and Cash Equivalents	(1,101)	1,340
Cash and Cash Equivalents, beginning of period	$ 1,340	$ —
Cash and Cash Equivalents, end of period	$ 239	$ 1,340
Cash Flows Include the Following Elements		
Income taxes (and installments) paid	$ 382	$ 214

See accompanying notes to these Consolidated Financial Statements

Notes to the Consolidated Financial Statements

1. Formation of the Fund

Swiss Water Decaffeinated Coffee Income Fund (the Fund) is an unincorporated open-ended, limited purpose trust established under the laws of the Province of British Columbia by a Declaration of Trust made as at April 3, 2002. The Fund was formed to acquire 100 percent of the common shares and $45,000,000 of 13.75 percent unsecured subordinated notes of Swiss Water Decaffeinated Coffee Company Inc. (the “Company”). This acquisition was successfully completed on July 24, 2002. To finance this acquisition, the Fund issued 5,455,200 trust units in a public offering for net proceeds of $49,719,589, after deducting expenses of the offering.

Each unitholder participates pro rata in distributions of net earnings and, in the event of termination of the Fund, participates pro rata in the net assets remaining after satisfaction of all liabilities. Income tax obligations related to the distribution of net earnings by the Fund are the obligations of the unitholders.

2. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Fund and the Company, a wholly owned subsidiary. Significant intercompany accounts and transactions have been eliminated on consolidation.

Revenue recognition

Revenues are recognized when goods are shipped and title has passed to the customer.

Property, Plant, and Equipment and depreciation

Property, plant and equipment are recorded at cost. Depreciation is provided on the straight-line basis over the following periods:

Machinery and equipment	10 years
Leasehold improvements	15 years
Computer software	5 years
Computer hardware	5 years
Furniture and fixtures	5 years

No depreciation is charged on construction in progress.

Inventory

Inventory is recorded at the lower of average cost and net realizable value. Average cost includes a component of realized and unrealized gains and losses on commodity forward contracts for inventory on hand. Finished goods and work in progress include amounts for labour and manufacturing overheads.

Foreign Currency Translation

Transactions undertaken in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the time of the transaction. Monetary assets and liabilities denominated in foreign currencies are converted into Canadian dollars at the exchange rate prevailing at the balance sheet date. Currency gains and losses are included in the results of operations in the year in which they occur.

The operations of the Company's integrated foreign subsidiary are translated using the Canadian dollar as the basis of measurement. Monetary items are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are translated at their historical rate and revenue and expense items are translated at the average rate for the period. Translation gains and losses are included in the results of operations for the period.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The Fund’s subsidiary computes income taxes using the asset and liability method, under which future income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Future tax assets and liabilities are measured using currently enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Goodwill

Original goodwill reflects the price paid for the Swiss Water business in excess of the fair market value of net tangible assets and identifiable intangible assets acquired. Acquisition goodwill arose on the acquisition of the company by the Fund. In accordance with the recommendations of the CICA Handbook Section 3062, goodwill is not amortized but is tested for impairment annually. Any excess of the carrying amount over the fair value of goodwill is charged to income.

Intangible Assets

Intangible assets represent the fair market value of the Company's proprietary process technology used in decaffeination of green coffee and the fair market value of the Company's brand. Proprietary process technology is not amortized but will be tested for impairment annually with any excess of the carrying value amount over the fair value of the proprietary process technology charged to income. Brand is amortized over 10 years on a straight-line basis.

Financial Instruments

Commodity forward contracts are used by the Company to manage the economic exposure to fluctuations in the price of green coffee beans. Gains and losses on commodity forward contracts are recognized when related raw material costs are charged to cost of sales and are deferred as a component of inventories if the related raw materials are on hand.

The Company manages a portion of its foreign exchange exposure through the use of forward exchange contracts. Gains and losses on these contracts are recognized in the same period as the income or expense arising from the corresponding hedged position.

Distributions to Trust unitholders

The amount of cash to be distributed to Trust unitholders is determined with reference to distributable cash, which is calculated as net income adjusted for amortization, future income taxes and maintenance capital expenditures.

Distributions to Trust unitholders are made monthly, based upon distributable cash less cash redemptions of Trust Units, and are subject to the Trust retaining such reasonable working capital reserves as may be considered appropriate by the Trustees of the Fund.

Net income per Trust unit

Consistent with the manner in which distributions are paid, net income per trust unit is calculated monthly based on the number of trust units outstanding on each record date. Net income per trust unit presented is the sum of the monthly earnings per trust unit for the reporting period.

3. Line of Credit

The Company has a $3,000,000 line of credit bearing interest at the bank prime lending rate plus 0.75 percent. The available line of credit is collateralized as described in Note 7.

4. Inventory

	2003	2002
Raw materials	$ 967	$ 1,299
Finished goods (includes reserve)	474	573
Work in progress	148	64
Realized and unrealized loss on forward contracts	89	122
	1,678	2,058

5. Property, Plant and Equipment

	2003			2002
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Machinery and equipment	$ 12,469	$ 1,617	$ 10,852	$ 10,350
Leasehold improvements	902	62	840	619
Computer software	318	88	230	280
Computer hardware	67	17	50	54
Furniture and fixtures	47	8	39	24
Construction in progress	313	—	313	70
	$ 14,116	$ 1,792	$ 12,324	$ 11,397

6. Other Assets

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Goodwill				
Original	$ 12,492	$ —	$ 12,492	$ 12,492
Acquisition (note 13)	16,350	—	16,350	16,350
Total goodwill	28,842	—	28,842	28,842
Proprietary process technology				
Original	5,500	—	5,500	5,500
Acquisition (note 13)	3,500	—	3,500	3,500
Total proprietary process technology	9,000	—	9,000	9,000
Brand (note 13)	1,000	144	856	956

7. Long-Term Debt

The Company has a $2,000,000 non-amortizing term Capital Expenditure Facility due July 23, 2005. The Capital Expenditure Facility is available to fund capital expenditures.

The Capital Expenditure Facility is held with a Canadian chartered bank, and bears interest at prime plus 1.25%. The credit agreement includes an operating line of credit (see Note 3) and both facilities are collateralized by a general security agreement over all of the assets of the Company.

8. Income Taxes

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for the Company, as the Company is subject to tax, including large corporation taxes. The provision for the period is divided between current and future taxes as follows:

	Year Ended December 31 2003	July 24, 2002 to Dec. 31 2002
Current income taxes	$ 144	$ 196
Future income taxes	230	92
	$ 374	$ 288

The provision for income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial statutory income tax rates to the earnings before income taxes as shown in the following table:

	Year ended December 31, 2003		For the period July 24, 2002 to Dec. 31, 2002	
Net income before income taxes	$ 6,686		$ 3,474	
Net income of the Fund subject to tax in the hands of recipient	(5,971)		(2,638)	
Net income of subsidiary company before income taxes	715		836	
Expected provision for income taxes	255	35.6%	297	35.6%
Disallowed portion of brand amortization	36	5.0%	16	1.9%
Other adjustments	83	11.6%	(25)	(3.0)%
Income tax expense	$ 374	52.2%	$ 288	34.5%

The components of future income tax liabilities consist of the following at December 31:

	2003	2002
Future income tax liabilities		
Original Goodwill and Proprietary Process Technology	$ 978	$ 720
Other	198	(25)
Property, plant and equipment	3,238	3,487
	$ 4,414	$ 4,182

9. Employee Benefits

The Company provides pension benefits to employees through a defined contribution plan. Pension benefit contributions for the year ended December 31, 2003 amounted to $133,232 (period from July 24 to December 31, 2002 - $51,978).

10. Unitholders' Equity

An unlimited number of trust units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders.

Trust units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemptions by the Trust in any one month. The limitation may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of a pro-rata distribution of securities held by the Trust.

No trust unit transactions occurred during the current period. Trust unit transactions for the period from July 24 to December 31, 2002, were as follows:

	Number of Units	Gross Proceeds	Issuance Costs	Net Proceeds
Initial issuance of trust units	$ 5,455	$ 54,552	$ 4,833	$ 49,719

11. Commitments

The Company has entered into operating lease agreements, primarily for warehouse and office space and equipment. Future minimum lease obligations are as follows:

2004	$ 168
2005	168
2006	168
2007	168
2008	70
	$ 742

During the year, the company has entered into a fourteen month agreement with its natural gas supplier to purchase a stipulated amount of natural gas (that approximates 88% of its average monthly usage) at a price that has fixed and variable elements. Under the terms of the agreement, the Company is to purchase 50% of the stipulated amount at a fixed rate. The remaining 50% is to be purchased at a variable rate based on a monthly index price. The agreement terminates October 31, 2004.

12. Financial Instruments

The Fund's financial instruments consist primarily of cash, accounts receivable, income taxes receivable, income taxes payable, and accounts payable, all of which have fair values approximately equal to carrying values due to the immediate or short-term maturity of these financial instruments.

Commodity risk

The Company utilizes certain forward contracts to manage its commodity price exposure. The Company sells commodity forward contracts for coffee beans on the Coffee, Sugar, and Cocoa Exchange in order to manage its commodity price exposure. As at December 31, 2003 the Company had sold forward contracts for 1,725,000 lbs (December 31, 2002 – 1,387,500 lbs) of green beans, with the contracts maturing in March 2004. The unrealized loss related to these future contracts at December 31, 2003 was $17,306 (December 31, 2002 – unrealized gain $135,805) and has been classified in inventory on the balance sheet. The Company does not engage in trading or other speculative use of these financial instruments.

Foreign currency risk

The Company realizes a significant portion of its sales in foreign currencies, principally U.S. dollars. During the year, the Company entered into forward exchange contracts to manage exposure to currency rate fluctuations related primarily to its future net cash flows of U.S. dollars from sales. The purpose of the Company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. At December 31, 2003, the Company has forward exchange contracts to sell $5,500,000 U.S. dollars (December 31, 2002 - $4,050,000) from January through to December 2004 at various Canadian exchange rates ranging from $1.31 to $1.37. At December 31, 2003, the net unrealized gain on the foreign exchange contracts was approximately $154,443 (December 31, 2002 – net unrealized gain of $13,600).

Interest rate risk

The Company is exposed to interest rate risk arising from fluctuations in interest rates on its line of credit and long-term debt as described in Notes 3 and 7.

Concentration of credit risk

The Company is exposed to credit risk with respect to its accounts receivable; however, this is minimized by the Company's large customer base. The Company follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary.

13. Acquisition

On July 24, 2002 the Fund issued 5,455,200 trust units in a public offering for net proceeds of $49,719,589. Before purchasing the Company, the Fund incorporated 615159 B.C. Ltd. (Acquisitionco), a wholly owned subsidiary of the Fund. Concurrently with the issuance of the trust units, the Fund invested the net proceeds in Acquisitionco by way of subscription for the shares and the purchase of the Swiss Water notes. Acquisitionco then acquired all of the outstanding shares of a predecessor to the Company for an amount equal to the net proceeds of the offering less the repayment of the predecessor company's then outstanding bank debt.

Following the acquisition, Acquisitionco and the predecessor company amalgamated to form the Swiss Water Decaffeinated Coffee Company Inc. (the Company). The Fund owns 100% of the common shares of the Company.

The acquisition has been accounted for using the purchase method of accounting and the Fund has consolidated the results of operation of the Company commencing July 24, 2002. The excess of the purchase price paid by the Fund through Acquisitionco over the underlying book value of the assets and liabilities the Company has been determined as follows:

Net proceeds	$ 49,720
Less repayment of outstanding term debt	(9,641)
Bank indebtedness assumed	25
Net purchase price	40,104
Net assets at book value	(13,136)
Purchase price discrepancy	$ 26,968
Allocated as:	
Goodwill	$ 16,350
Proprietary Process Technology	3,500
Brand	1,000
Property, plant and equipment	9,500
Future Income Taxes	(3,382)
	$ 26,968

14. Segmented Information

The Company's sales are primarily generated in the following geographic markets:

	Year Ended December 31 2003	For the period July 24, 2002 to Dec. 31 2002
Revenue		
Canada	$ 6,698	$ 3,310
United States	14,279	6,748
Other	3,328	1,026
	$ 24,305	$ 11,084

Revenues from two major customers of $3,541,007 and $1,865,800 (2002 – $1,677,063 and $841,926) represented 15% and 8% (2002 – 15% and 8%), respectively of total revenues for the period.

15. Distributable Cash

The Fund's policy is to distribute 90% of its distributable cash each month excluding any reserve deemed prudent by the trustees of the Fund and by the Board of the Company. Distributable cash is not a defined term under Canadian generally accepted accounting principles and is unlikely to be comparable to similar measures presented by other companies, but is determined as net income for the period, adjusted to remove non-cash expenses including depreciation, amortization and future income taxes and reduced by maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow.

The Company defines maintenance capital expenditures as cash outlays, capital in nature, required to maintain the business at its current operating capacity and efficiency level.

Based on the above definition distributable cash for the period from January 1 to December 31, 2003 was calculated as follows:

	Year Ended December 31 2003	For the period July 24, 2002 to Dec. 31 2002
Net Income	$ 6,312	$ 3,186
Add:		
Depreciation and amortization	1,387	549
Future Income Taxes	230	92
	$ 7,929	3,827
Less:		
Maintenance capital expenditures	100	10
Distributable cash generated before reserves	$ 7,829	$ 3,817
Add back reserve for special project fees	$ 82	$ —
Distributable cash generated	$ 7,911	$ 3,817
Distributable cash at 90%	7,120	3,436
Distributions, paid or payable	7,103	3,131
Distributable cash generated per unit at 90% pay-out	1.3052	0.6298
Distributions declared per unit	1.3020	0.5740

16. Subsequent Event

The Fund paid a distribution of $0.1085 per unit on January 15 and February 16, 2004 to unitholders of record on December 31, 2003 and January 30, 2004, respectively. The Fund has also declared a distribution of $0.1085 per unit on February 19, 2004 to unitholders of record on February 27, 2004.

17. Guarantees

The Fund has adopted the recommendations of CICA Accounting Guideline 14, "Disclosure of Guarantees". This guideline requires a guarantor to disclose the significant details of guarantees that have been given regardless of whether it will have to make payments under the guarantees.

In the normal course of its operations, the Fund has entered into an agreement whereby the Fund guarantees a minimum processing volume to a customer through to 2008. If this minimum volume is not delivered, and if the customer incurs incremental costs and direct damages of processing through other sources, then the Fund will be liable to reimburse the customer for all such incremental costs.

The Fund is not able to make a reasonable estimate of the maximum potential amount it could be required to pay due to the unique nature of its processing service. The Fund has never made any payment under such agreements and no amount has been accrued in the consolidated financial statement with respect to these obligations.

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Board of Trustees

David J. Rowntree - Chairman

Managing Director, Tricor Pacific Capital

David is a founder and principal of Tricor Pacific Capital, a private equity investment firm.
Prior to joining Tricor, David was Associate Counsel with Stikeman Elliot, a Canadian-based global law firm, where his clients included companies in soft drink, beer and financial services industries.
David holds a B.A. from the University of B.C. and a Bachelor of Law from Osgoode Hall Law School in Toronto, Ontario.

Richard T. Mahler

Retired

Richard was Executive Vice President and CFO of Finning International Inc., the world's largest Caterpillar dealer, from 1990 until his retirement in 2003. In addition to serving on our board of trustees, Richard is Chair, Partnerships BC, a director of Selkirk Financial Technologies and the Vancouver Board of Trade, and a director and Treasurer of the VGH/UBC Hospital Foundation. He holds an MBA from McMaster University, and a B.Sc. in Mathematics and Computer Science from the University of Waterloo.

Daniel A. Sitnam

President and CEO, Helijet International Inc.

Daniel is the founder of Helijet International Inc., the most successful scheduled helicopter service in North America. In his capacity as President and CEO, he oversees all financial, commercial and operational facets of the company, as well as its respective operating units, Helijet Charters and Pacific Helijet Services. Daniel has received several awards and much recognition within the business community for his entrepreneurial accomplishments.

Scott Svenson

Managing Partner, Sienna Partners, LLC

Scott is the founder and Chairman of Sienna Partners, LLC, a private investment group based in Seattle and London. As founder and CEO of the U.K.-based Seattle Coffee Company (subsequently sold to Starbucks in May 1998) and past President of Starbucks Europe, he brings extensive coffee industry experience to SWDCC. Scott graduated from Harvard University with honors and sits on a diverse range of corporate boards.

Frank A. Dennis

President and CEO, SWDCC

Frank has led SWDCC since it separated from Kraft Foods in 2000. A proven brand-builder, Frank has worked within the coffee industry for more than 10 years. Past positions include Business Director of Kraft Foods Coffee Division, where he oversaw the growth of the SWISS WATER® Process brand and the development of brands such as Nabob and Maxwell House. Frank holds a B.A. from the University of Western Ontario and an M.B.A. from the University of Toronto.

Burt Dennis

Chief Financial Officer, SWDCC

Burt brings more than 14 years diverse experience as a CFO to SWDCC. He has worked to build sales and earnings at a range of companies – from high-growth technology-based businesses to real estate development corporations – and has extensive corporate finance experience. Burt holds a Bachelor of Commerce degree from the University of British Columbia, and a Chartered Accountant designation.

Corporate Information

Swiss Water Decaffeinated Coffee Company Inc.

Officers

Frank A. Dennis
President & Chief Executive Officer

Burt Dennis
Chief Financial Officer

Ben Hieltjes
Vice President Sales

Jeffrey MacVicar
Plant Manager

Dave Wong
Controller

Directors

Frank A. Dennis
President & Chief Executive Officer

Burt Dennis
Chief Financial Officer

Richard T. Mahler
Retired

Daniel A.J. Sitnam
President & Chief Executive Officer
Helijet International Incorporated

Scott Svenson
Managing Partner
Sienna Partners, LLC

David Rowntree
Managing Director
Tricor Pacific Capital Inc.

Head Office

3131 Lake City Way
Burnaby, British Columbia
V5A 3A3

www.swisswater.com

Fund Information

Swiss Water Decaffeinated Coffee Income Fund

Trustees

David Rowntree
Chairman of the Board of Trustees
Managing Director
Tricor Pacific Capital Inc.

Frank A. Dennis
President & Chief Executive Officer
Swiss Water Decaffeinated
Coffee Company Inc.

Burt Dennis
Chief Financial Officer
Swiss Water Decaffeinated
Coffee Company Inc.

Richard T. Mahler
Retired

Daniel A.J. Sitnam
President & Chief Executive Officer
Helijet International Incorporated

Scott Svenson
Managing Partner
Sienna Partners, LLC

Investor Relations

Burt Dennis
604-444-8780
bdennis@swisswater.com

Auditors

Deloitte & Touche LLP
Vancouver, British Columbia

Units Listed

The Toronto Stock Exchange
Trading Symbol: **SWS.UN**

Transfer Agent

Computershare Trust
Company of Canada

Annual General Meeting

Friday May 21, 2004
10:00 am
The Fairmont Waterfront hotel
900 Canada Place Way
Vancouver B.C.

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